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(202) 226-7270



U.S. House of Representatives
COMMITTEE ON THE BUDGET
Washington, DC 20515

July 30, 2001

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THOMAS S. KAHN, MINORITY STAFF DIRECTOR
AND CHIEF COUNSEL
(202) 226-7200

Running on Empty: How Did This Happen?

Dear Democratic Colleague:

In the weeks ahead, Congress will struggle to pass the 13 regular appropriations bills. Republicans will try to argue that excessive spending is causing the Medicare surplus to be tapped. They will want us, the press, and the citizens to forget that the Bush tax cut put us in a fiscal straitjacket.

The Bush tax cut was the first thing and the largest thing that Republicans did this year. The attached chart vividly illustrates that the Bush tax cut bears overwhelming responsibility for putting us into a precarious fiscal situation.

The true cost of the Bush tax cut in 2002 is \$75 billion—not \$38 billion, as Republicans will claim. The difference is largely explained by a timing gimmick—an absurd two-week shift of corporate tax payments—that makes the 2001 tax cut appear \$33 billion larger and the 2002 tax cut appear \$33 billion smaller. This gimmick is silly. Two weeks makes no meaningful difference, and we do not grant this gimmick any credibility. In addition, the true cost of the Bush tax cut also includes \$4 billion in added spending for interest on the public debt that it causes.

The chart also shows those spending increases called for by the Republicans that are likely to be enacted this year. These consist of the \$12 billion in defense outlays that will result in 2002 from President Bush's interim request for an additional \$18.4 billion in budget authority. In addition, the chart shows the \$4 billion increase in other appropriations called for in the Republican budget resolution. Both the defense spending and other appropriations figures include the added interest expense that they trigger.

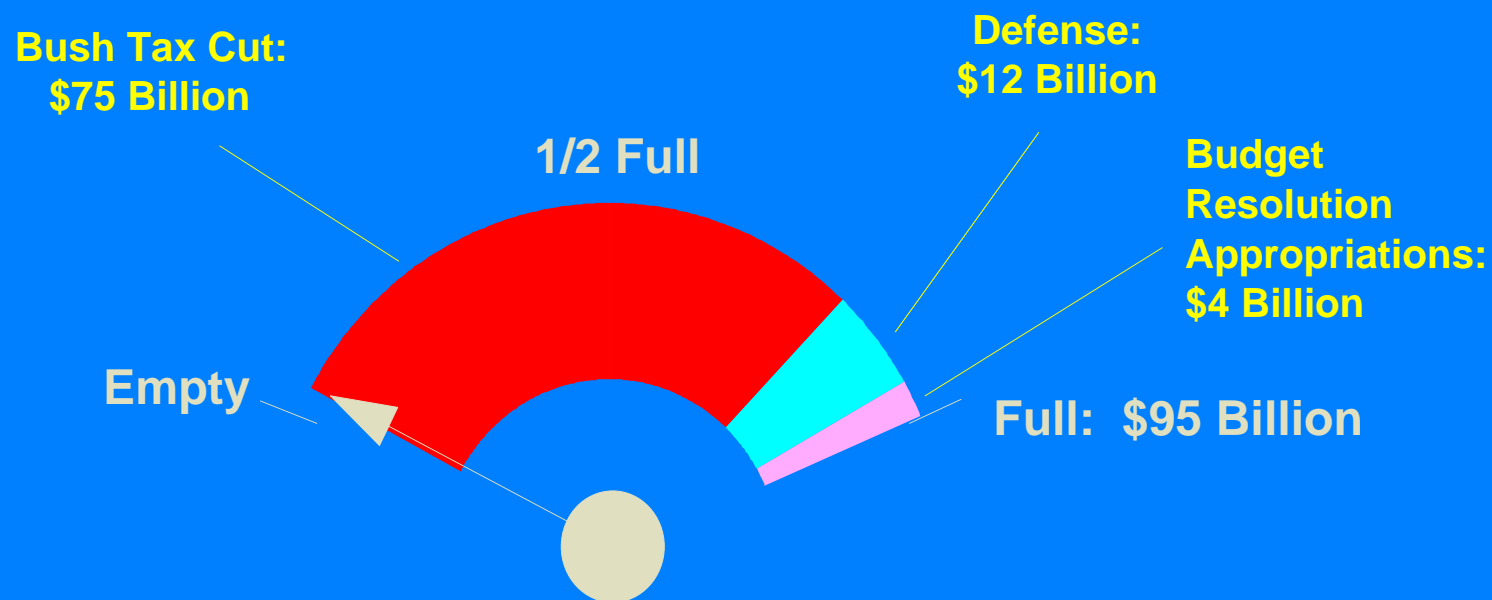
The chart does **not** include \$23 billion in other spending that the Republican budget resolution calls for. We excluded it because most observers do not believe it is likely Congress will enact spending beyond the regular appropriations bills.

In budgeting, large items are more important than small items, and the Bush tax cut clearly is the largest factor in our current predicament. The Bush tax cut in 2002 is almost five times the size of the appropriations increases called for by the budget resolution and the President's interim defense request combined. Even if some of the other spending in the Republican budget resolution manages to pass this year, the tax cut will still overwhelm it.

Finally, it must be stressed that the economic slowdown plays no role in our calculations. The chart is based on CBO's spring projections, which assume strong economic growth and a significant surplus in 2002. Of course, CBO will issue new projections in August that will reflect the economy's current weakness. When it does, we will have to produce a new chart titled, "Out of Gas! How Did This Happen?"

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



Fiscal Year 2002

**Running on Empty
How Did This Happen?**